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SUBJ: CANADA: Transportation Sector Happy with Government of Canada's May 2 Budget Announcement

¶1. Summary: Truckers, airports and railways all professed their pleasure with the new Conservative government budget of May 2. The railways applauded the federal government's commitment to invest in infrastructure to increase the capacity of Canada's west coast ports, commuter rail and short line railways; Airports welcomed the \$25 million expansion plan of the NEXUS air program. Truckers expressed satisfaction that corporate tax relief will be coming for "our customers and for carriers." They lauded the new highway and borders infrastructure funding, but said the budget fell short on reducing taxes on inputs, such as fuel. Truckers hope to see that benefit in future budgets. End summary.

Budget Offers Billions for Transportation and Border

¶2. The May 2 federal budget contained several significant announcements pertinent to the transportation sector. Over the next four years Budget 2006 provides more than C\$5.5 billion in new federal funding for: the Highways and Border Infrastructure Fund (C\$1.6 billion); Canada's Pacific Gateway Initiative (C\$239 million); the Canada Strategic Infrastructure Fund (C\$1.2 billion); the Municipal Rural Infrastructure Fund (C\$1.5 billion); and the Public Transit Capital Trust (C\$900 million). The budget maintains the estimated C\$3.9 billion in current funding over the next four years under existing infrastructure agreements. The budget also offers a grab bag of smaller investments such as C\$133 million over two years to assist the Canadian Air Transport Security Authority (CATSA) in coping with increasing passenger flows and related operating pressures, and C\$25 million for expansion planning for the NEXUS air program. The full array of budget documents are at www.fin.gc.ca

Truckers Pleased, but not Ecstatic

¶3. CEO of the Canadian Trucking Alliance (CTA) David Bradley noted in his comments on the budget that by offering corporate tax relief for trucking customers and for carriers and new highway and borders infrastructure funding, the government "has definitely tried to cover all the bases with regard to their priority areas".

¶4. The budget plan specifically includes an acknowledgement

that two-thirds of Canada's trade with the U.S. moves by truck. While he welcomed this high profile, and the highway and border initiatives that come along with it, in his comments on the budget Bradley indicated some slight anxiety, noting that "he hopes that it will be enough to leverage provincial investment and cooperation."

¶5. Comment: This highway improvement is critical. In recent decades, the capacity and condition of Canada's highway infrastructure has deteriorated dramatically. The 1989 National Highway Study conducted by the Transportation Association of Canada showed that 40% of the national network was sub-standard. A later study completed in 1998 found that it would cost over C\$17 billion to bring the national highway system up to an acceptable standard. That study, conducted for the joint federal and provincial "Council of Ministers Responsible for Transportation and Highway Safety," identified serious deficiencies in Canada's 25,000 kilometers of national highways: 5,000 km are below the "minimum geometric design standard"; 5,300 km fail to allow a minimum operating speeds of 90km/h, or require upgrading to increase capacity; 1,600 km are unable to carry the national standards for heavy vehicle weight limits; and 6,900 km are below the acceptable standard for pavement roughness. End comment.

¶6. The CTA argues that although the forecast price tag of bringing Canada's highway system up to standard may seem intimidating, the forecast benefits are enormous. CTA estimates that improved highway infrastructure would reduce vehicle operating costs by C\$360 million annually for 25 years, and that up to 236 million liters of fuel would be saved annually. In the context of just-in-time deliveries, travel time savings are estimated at between C\$18 and C\$26 billion over 25 years. In terms of highway safety, the CTA

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argues that widening lanes, adding medians, and paving shoulders would also reduce the number of fatal collisions by up to 247 per year and personal injuries by up to 16,000 per year.

¶7. The Highway Fund, part of what Minister of Finance Flaherty described as "a long-term commitment of unprecedented new investment," will be used to cost share improvements to the core national highway system with provinces and territories.

¶8. The CTA expressed disappointment that the minister did not choose to eliminate the federal excise tax on diesel fuel, a key and increasingly costly trucking business input. The tax is, in the opinion of the CTA, an "outdated, regressive form of taxation that is especially harmful in low margin businesses like trucking." Bradley noted, somewhat archly, that Minister Flaherty did remove the tax on jewelry. Nevertheless, the federal budget plan did state that "complete elimination of provincial retail sales tax on business inputs by all provinces would significantly improve Canada's chances in the international competition for investment, resulting in more jobs and growth." Bradley said that this recognition of the need to eliminate taxes on business inputs is something to build upon for future budgets.

Airport Community Applauds NEXUS Expansion

¶9. The 45-member Canadian Airports Council warmly welcomed the federal government's announced C\$25 million expansion plan of the NEXUS air trusted traveler program. (Comment: CAC's members encompass more than 150 airports, including all of the National Airports System (major) airports and most significant municipal airports in every province and territory. CAC airports handle virtually all of the

nation's air cargo and international passenger traffic and 95% of domestic passenger traffic. End comment.) CAC President and CEO Jim Facette noted that the CAC is looking forward to working with the Canada Border Services Agency (CBSA) to coordinate an "effective marketing and communications campaign to promote the NEXUS air program to Canadian travelers." The CAC has been a booster of NEXUS expansion, but its positive remarks were tempered by a warning that the federal government cannot forget other CBSA budgetary constraints that, the CAC contends, are limiting air service and economic growth for many Canadian airports and the communities they serve. The CAC argues that CBSA must be properly funded so that airports do not have to continue to pay for CBSA services. Facette said constraints on CBSA service expansion, and the requirement for some smaller communities to pay for CBSA services, "put an inappropriate limit on the ability of Canadian communities to offer international air service, and accordingly, to take full advantage of the opportunities in the global economy."

¶10. The CAC was also pleased to see the budget contained C\$133 million over two years (\$45 million in '06-'07 and \$87 million in '07-'08) to assist CATSA in coping with increasing passenger flows and related operating pressures, and C\$26 million over two years for the design and pilot testing of an air cargo security initiative covering both security throughout the supply chain as well as the evaluation of enhanced screening technologies.

¶11. The CAC also mentioned positively the C\$1 billion in the Q11. The CAC also mentioned positively the C\$1 billion in the budget over five years to further improve Canada's pandemic preparedness. \$600 million is to be allocated to departments and agencies. \$400 million is to be set aside as a contingency fund (to be used to enhance Canada's preparedness if an elevated pandemic risk were to occur). An additional C\$12 million was identified for pandemic business resumption planning.

Railways Focus on Ports Improvements

¶12. Cliff Mackay, President and CEO of the Railway Association of Canada (RAC), expressed the satisfaction of Canada's freight and passenger railways with the commitment

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to invest more in infrastructure to increase the capacity of Canada's west coast ports and commuter rail and short-line railways. (Note: RAC's 59 members represent Canada's freight, tourist, commuter, and intercity railways. RAC member railways carry two-thirds of the freight moved in Canada and 60 million commuter and inter-city passengers annually. End note.) In addition to praising the Strategic Infrastructure Fund and Pacific Gateways (which will bolster especially Vancouver and Prince Rupert ports), the RAC noted specifically C\$95 million for new measures to enhance the security of passengers on railroads and urban transit routes. RAC also views favorably the \$370 million over the next two years in tax credit savings for urban transit users.

WILKINS